ONTARIO CAPITAL GROWTH CORPORATION

2012-2013

ANNUAL REPORT

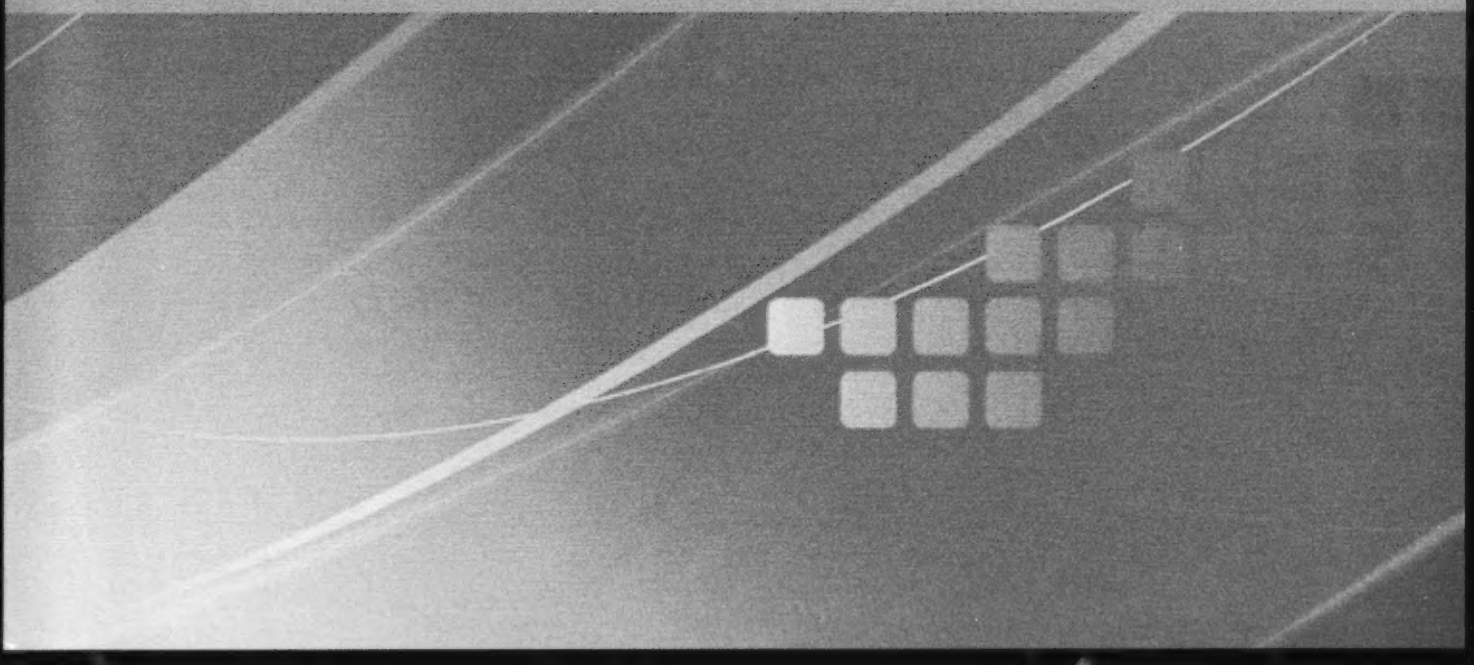
Ontario

Ontario Capital Growth Corporation

www.ontario.ca/ocgc

1 ABOUT THE ONTARIO CAPITAL GROWTH CORPORATION
2 MESSAGE FROM THE CHAIR
4 MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER
6 MEMBERS OF THE BOARD OF DIRECTORS
8 MANAGEMENT'S DISCUSSION AND ANALYSIS
8 Venture Capital Markets in 2012
10 2012-2013 Operations and Results Achieved
10 Ontario Venture Capital Fund
11 New Ontario Venture Capital Fund
12 Ontario Emerging Technologies Fund
15 Ontario Venture Capital Ecosystem Activities
16 FINANCIAL STATEMENTS
16 Management's Responsibility for Financial Reporting
17 Independent Auditor's Report
18 Statements of Financial Position
19 Statements of Operations and Changes in Accumulated Operating Surplus
20 Statements of Remeasurement Gains and Losses
20 Statements of Changes in Net Assets
21 Statements of Cash Flows
22 Notes to Financial Statements
30 CORPORATE GOVERNANCE
30 Overview
30 Accountability
30 Roles and Responsibilities
31 Financial Reporting
31 Internal Controls
31 Operations
32 RISK MANAGEMENT POLICIES AND PROCEDURES
32 OUTLOOK FOR 2013-2014
BC CONTACT INFORMATION

The Ontario Capital Growth Corporation (OCGC) was established by the *Ontario Capital Growth Corporation Act, 2008* and launched on February 27, 2009. The principal business of OCGC is to manage the interest of the Government of Ontario in the limited partnership known as the Ontario Venture Capital Fund LP (OVCF) and to manage and operate the Ontario Emerging Technologies Fund (OETF). OCGC is an operational enterprise agency of the Ministry of Research and Innovation (MRI).



ABOUT THE ONTARIO CAPITAL GROWTH CORPORATION

The Ontario Capital Growth Corporation (OCGC) was established by the *Ontario Capital Growth Corporation Act, 2008* and launched on February 27, 2009. The principal business of OCGC is to manage the interest of the Government of Ontario in the limited partnership known as the Ontario Venture Capital Fund LP (OVCF) and to manage and operate the Ontario Emerging Technologies Fund (OETF). OCGC is an operational enterprise agency of the Ministry of Research and Innovation (MRI).

The $205 million OVCF is a limited partnership between the Government of Ontario and leading institutional investors: Ontario Municipal Employees Retirement System (OMERS), Royal Bank of Canada, TD Bank Group, the Business Development Bank of Canada, and Manulife Financial. OVCF was established to invest primarily in Ontario-based and Ontario-focused venture capital and growth equity funds that support innovative, high potential companies. Ontario has committed $90 million to the Fund, with the balance coming from its partner institutions.

OVCF is structured as a fund-of-funds, whereby investors pool their capital to both invest in a range of funds (predominantly venture capital funds) as well as co-invest directly into Ontario based companies.

OVCF is managed by Northleaf Capital Partners Ltd. As a limited partner in OVCF, OCGC does not have an active role in the management of the Fund.

OVCF was designed to foster innovation and investment in Ontario by making fund commitments and direct investments in high performing funds and companies that aim to enhance long-term investment returns and contribute to the creation of a globally competitive and self-sustaining venture capital industry in Ontario.

OETF was established in 2009 by the Government of Ontario as a $250 million direct co-investment fund to invest, alongside qualified investors, directly into innovative, high-potential Ontario companies in the following sectors: clean technologies; life sciences and advanced health technologies; and digital media and information and communication technologies. It is a discretionary, non-entitlement investment program making equity and quasi-equity investments directly into Ontario-based companies. Any net capital profits returned to it from its investments are to be reinvested.

MESSAGE FROM THE CHAIR

On behalf of the Board of Directors, I am pleased to present the 2012-2013 Annual Report of the Ontario Capital Growth Corporation (OCGC). This report highlights OCGC's progress during the fiscal year which ended on March 31, 2013. OCGC has continued to maintain and expand its mandate in the venture capital industry. OCGC's impact on the Ontario venture capital market has been significant, with two funds established last calendar year backed by the Ontario Venture Capital Fund (OVCF) contributing approximately 36% of the capital raised in Ontario.

Venture capital continues to be an essential ingredient in building and expanding a vibrant economy. Indeed, Ontario's future economic success depends on it, if Ontario is to compete in the global marketplace. Continuing to create a sustainable, long-term venture capital sector in Ontario is OCGC's key mandate.

The importance of OCGC's work is recognised in the report prepared by the Jobs and Prosperity Council which noted the need for Ontario to 'Unleash Innovation and Entrepreneurship' by accelerating the commercialization of new products. OCGC is playing a significant role in this initiative.

OCGC's vision and goal as it moves into the future is to bring together both the demand and supply side of the venture capital market. The Government of Ontario has created a world-class innovation environment for an entrepreneur to start and grow a company in Ontario. At the same time, through its funds, OCGC is helping to build a strong venture capital culture and ecosystem in Ontario by augmenting the supply of capital in the market and supporting Ontario companies. Along with Ontario-based venture-backed initiatives such as Extreme Startups and Next 36, OCGC has helped create an ecosystem that will enable Ontario to compete at a global level.

OCGC continues to utilize its presence in the market and its market-based investment principles to bring together new partnerships among entrepreneurs, innovative companies and investors, both domestic and foreign. To date, OCGC has helped facilitate increased engagement by corporate venture capital divisions, foreign venture capital groups and others by providing exposure into the Ontario venture capital market and to leading-edge Ontario companies.

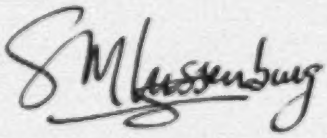
In 2012-13, OCGC delivered on its mandates related to the OVCF and the Ontario Emerging Technology Fund (OETF). Through these funds, OCGC has played an important role in helping create the next generation of fund managers in Ontario and deploying much needed capital

to start-up businesses. While OCGC was directed to pause on making new initial investment under OETF in 2012, OCGC was given an expanded mandate, which builds on the success of the current OVCF, to establish a successor fund to OVCF in cooperation with the Federal government and the private sector. The Ontario commitment of up to $50 million to a new Ontario venture capital fund in partnership with the Federal government will set the stage for the agency's work in 2013-14 and beyond.

With the re-alignment of ministries within the government, OCGC now reports to the Ministry of Research and Innovation. As such, OCGC will continue to deliver on the key priorities of the Ministry and the Government.

I would like to thank the OCGC Board of Directors for their continuing commitment and dedication to the organization. I would also like to thank John Marshall, our President and CEO, as well as the staff at OCGC for their dedication, hard work and continued support over the past year in implementing an important component of the Ontario innovation agenda.

I would also like to recognize the continuing input and support from OCGC's qualified investors, limited partners, funds and many other stakeholders in the Ontario venture capital ecosystem whose active support and engagement are so critical to the success of early-stage companies in Ontario.



Selma M. Lussenburg
Chair
June 17, 2013

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

In 2012-2013, OCGC continued in its role as the lead agency for the Ontario government's initiatives in venture capital. Through the two funds it currently manages, OVCF and OETF, OCGC has built a solid reputation in the venture capital market. As demonstrated by the rise in venture capital fundraising and proportion of OVCF backed funds that have closed since 2010, OCGC's work has helped expand the venture capital market both in Ontario and Canada.

OVCF has demonstrated that its market based, returns-driven investment strategy has gained wide-spread market support. As OVCF approaches the end of its active investment period, with 8 funds closed, 2 pending fund commitments and 6 direct investments, the strategy and impact of OVCF on the market has been validated. The introduction of the new fund in partnership with the federal government will continue the work in this area.

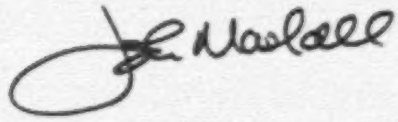
On the direct investment side, OETF has closed a total of 27 initial co-investment transactions which has levered over $2 for every $1 invested. Much of this levered capital has been sourced from outside Ontario, providing new investment for Ontario companies. Investments managed under the OETF continue to be spread across the Fund's three target sectors – clean technology; life sciences and advanced health technologies; and digital media and information and communications technologies.

As would be expected in any venture capital portfolio in its third year, OCGC has seen some investment impairments, but many of the companies in the OETF and OVCF are penetrating a highly competitive market and are well poised for success to its investors, the Ontario economy and Ontario as an investor.

In addition to providing access to capital through OETF and OVCF, OCGC plays an important role as a builder and supporter of the venture capital ecosystem, connecting a wide-business network of industry partners, investors and entrepreneurs. OCGC has showcased Ontario companies to potential corporate investors and US venture capital investors – helping to increase the availability of early-stage capital for innovative companies in Ontario.

OCGC has an established risk and financial management structure in place to adhere to the regulatory and legislative requirements demanded of a crown agency. During the recent fiscal year, the agency was subject to an annual external financial audit in which the corporation received an unqualified audit opinion.

In closing, I would like to acknowledge the valuable guidance and support provided by OCGC's Board of Directors in executing on OCGC's mandate. Let me also take this opportunity to thank the OCGC team for their critical contributions, continued dedication and hard work during the past year.



John Marshall
President and Chief Executive Officer
June 17, 2013

MEMBERS OF THE BOARD OF DIRECTORS

The following individuals were members of the Board in 2012-2013:

Selma M. Lussenburg – Chair

Appointment to Board:
February 2011

Selma Lussenburg was appointed as the Chair of the OCGC Board on February 9, 2011. Ms. Lussenburg is also Vice President, Governance and Legal, General Counsel and Corporate Secretary of the Greater Toronto Airports Authority. Ms. Lussenburg has extensive private sector experience with AT&T and OMERS, and a background in corporate governance, including serving as the Corporate Secretary to the OMERS Board of Directors and the GTAA Board of Directors.

Ms. Lussenburg is a member of the Advisory Board of the Canadian Innovation Exchange (CIX), Canadian Co-Chair of the Business Outreach Committee of the Trade Ministers NAFTA 2022 Advisory Committee on the Resolution of Private Commercial Disputes and a Member of the Canada-U.S. Law Institute Advisory Board.

Ms. Lussenburg holds degrees from the University of Ottawa (BA & LLB, Cum Laude) and the Australian National University (LLM), and holds a Chartered Director designation from the Directors College, DeGroote School of Business, McMaster University. Ms. Lussenburg is a member of the Institute of Corporate Directors and the Centre for Ethics and Corporate Policy.

Wendy Tilford – Vice-Chair

Appointment to Board:
February 2012

Wendy Tilford is the Deputy Minister of the Ministry of Economic Development, Trade and Employment (MEDTE) and the Ministry of Research and Innovation (MRI) and has served as Deputy Minister since joining the provincial government in early 2010. With a mandate to help grow a strong economy that provides jobs and prosperity for all Ontarians, Ms. Tilford led MEDTE/MRI to successfully bring investments to the Province while developing and improving existing policies and programs.

She has held senior executive leadership positions in large, complex organizations, start-ups and midsize companies such as Bell Canada, Norigen Communications, Canadian Standards Group, and most recently QMI-SAI Global as President.

Ms. Tilford has a Bachelor of Arts from the University of Toronto.

Tony Rockingham

Appointment to Board:
February 2009

Tony Rockingham was the Assistant Deputy Minister at the Innovation and Commercialization Division of the Ministry of Research and Innovation until his retirement in September 2011.

Previously, Mr. Rockingham was the Assistant Deputy Minister responsible for Ontario's conservation and strategic policy at the Ministry of Energy.

He studied Industrial Engineering at the University of Toronto and earned a Ph.D. in Mechanical Engineering from the Imperial College of Science and Technology in London, England.

Gadi Mayman

Appointment to Board:
February 2009

As CEO of the Ontario Financing Authority (OFA), Gadi Mayman is responsible for the Province's borrowing and debt management strategy, corporate and electricity finance projects, and its banking and capital markets relationships. He is also CEO and Vice-Chair of the Ontario Electricity Finance Corporation (OEFC).

Prior to joining the Ontario Ministry of Finance, Mr. Mayman worked at the Export Development Corporation in Ottawa and in the International Division of the TD Bank. He earned a Bachelor of Applied Science in Industrial Engineering from the University of Toronto in 1981, and a Master of Business Administration from the University of Western Ontario in 1988.

Mr. Mayman is also on the board of Infrastructure Ontario, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and Ontario Power Generation Committee.

Tony Vander Voet

Appointment to Board:
February 2009

Dr. Vander Voet was the Acting Assistant Deputy Minister at the Science and Research Division of the Ministry of Research and Innovation until his retirement in 2009.

Since 1980, Dr. Vander Voet held a number of roles of increasing responsibility in several Ontario government ministries and agencies, including the Ministry of Northern Development and Mines; the Ontario Science Centre; the Ministry of Culture, Tourism and Recreation; the Ministry of Solicitor General and Correctional Services; the Ministry of Economic Development and Trade; and the Ministry of Research and Innovation.

Dr. Vander Voet earned his B.Sc. and M.Sc. in Chemistry from the University of Alberta and holds a Ph.D. in Chemistry from the University of Toronto.

MANAGEMENT'S DISCUSSION AND ANALYSIS

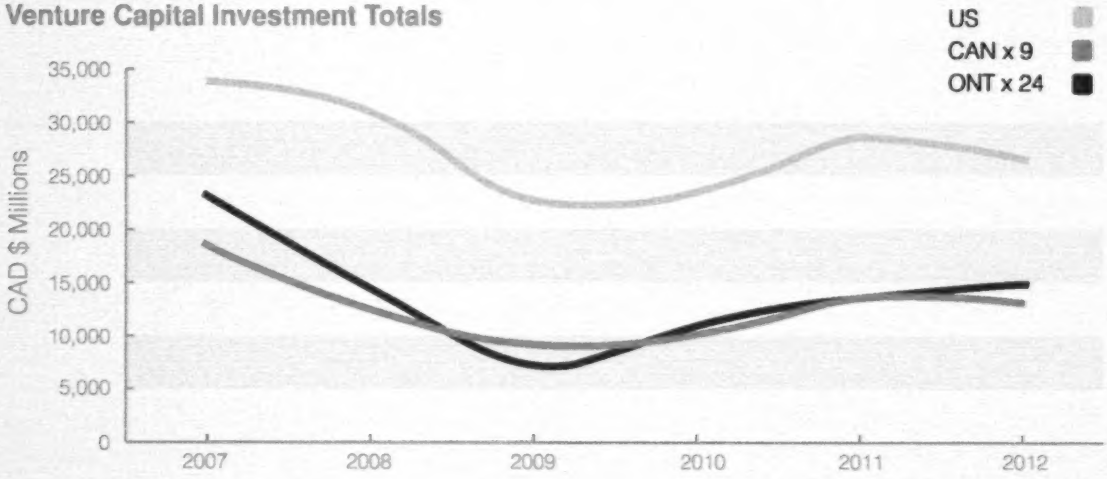
VENTURE CAPITAL MARKETS IN 2012[1]

The 2012 Canadian venture capital investment market was largely on par with that of 2011. In total, $1.46 billion was distributed across 406 companies, a slight decrease in value but an increase in the number of companies financed from 2011. Average investment into Canadian companies in terms of both size of individual transactions and, total annual investment per company remained steady on a year-over-year basis, suggesting greater stability in the market compared to the 2008 global recession.

Foreign investment into Canada dropped significantly in 2012. The $390 million invested by foreign investors represented a 20% drop from 2011. This decrease in foreign investment was likely caused by cooling in the broader US market. Unlike Canada, US venture investment did not experience the same continued momentum through 2012. The $26.9 billion invested in the United States in 2012 represented a contraction of approximately 10% from nearly $30 billion in the prior year.

While the overall Canadian venture capital market has seemingly plateaued, Ontario continued to make investment gains in 2012. With an 8% increase over last year, Ontario has now experienced year-over-year gains since the historic lows of 2009. In securing $611 million of venture investment, Ontario accounted for over 40% of the Canadian total investment, ranking 6th in North America - the highest of any Canadian province.

Venture Capital Investment Totals



***While US investment levels drop, and Canadian levels plateau, Ontario continues to gain steadily. Investment amounts adjusted relative to comparative population.**

[1] All statistics, figures and data refer to calendar year and are sourced from Thomson Reuters unless otherwise noted.

Startup Genome recently ranked Toronto as one of the top ten startup ecosystems globally, with Waterloo also placing in the top twenty[2]. With the addition of other leading technology hubs such as Ottawa and Hamilton, these rankings demonstrate the strength of Ontario's technology cluster and start-up ecosystem when benchmarked globally. The 2012 investment trends indicate these rankings are well founded. Specifically, for the first time since 2000, the number of companies receiving their first round of financing exceeded companies receiving follow-on investment. 74% of new company investment by number of companies, and 92% by capital, was in the information and communications technology (ICT) sector.

Breaking out Ontario's $611 million invested by sector, ICT deals garnered the lion's share of Ontario investment dollars receiving $463 million, a 25% increase over 2011, and a third straight year of sizable growth. While still below pre-2008 levels, at 76% of total investment, this is the highest concentration of dollars, by percentage, flowing to ICT deals since 2002. Life science deals finished 2012 with a total of $118 million invested across 21 companies, slight gains but largely on par with 2011. While other sectors continued to make steady gains since the 2008/09 recession, cleantech activity receded in 2012. The $18 million invested represents a decrease of approximately 75% from 2011, and its lowest level in over a decade.

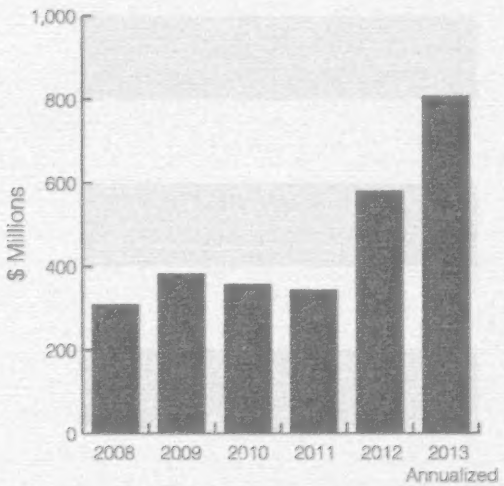
Nationally, fund raising activity in 2012 was at levels higher than it has been in the previous decade. Canadian funds raised a total of $1.78 billion, an increase of nearly 70% from last year's figure. When adjusted for market size, Canadian funds which raised capital achieved 90% of the amount of capital raised by their US counterpart, closing a gap which in 2011 was measured at only 56%, and has been as low as 29% as recent as 2007.

Ontario also experienced a tremendous year-over-year influx in new capital commitments, securing $579 million dollars; a significant increase from 2011's $344 million.

A year-over-year increase of 68% in capital commitments marked Ontario's third highest total since 2002, only significantly trailing 2005's $832 million[3]. Preliminary data from the first quarter of 2013 indicates that Ontario's fund raising momentum could continue. With $202 million already raised, greater than 50% of Canada's total, Ontario is on track to potentially surpass 2012.

OVCF played a significant role in 2012's fund raising, participating in the closing of two new Ontario based funds which accounted for 36% of the province's total capitalization, as well as a third venture capital fund headquartered in Quebec with an Ontario focus. A founding principle of OVCF was to provide sufficient capital to create Ontario-based/Ontario-focused venture capital funds and with its commitment period coming to an end, it has done just that. Since 2010 OVCF has helped capitalize 7 Ontario-based/Ontario-focused[4] funds which, when aggregated, total over 40% of Ontario's fund raising during that time.

Ontario Fund Raising 2008 to Present



[2] Source: http://techcrunch.com/2012/11/20/startup-genome-ranks-the-worlds-top-startup-ecosystems-silicon-valley-tel-aviv-l-a-lead-the-way

[3] 2003 Fund raising totaled a comparable, but higher, $583 million

[4] Only Ontario based funds are aggregated for the purposes of comparison

Exit activity in Canada throughout 2012 remained consistent with prior years with 29 reported venture backed companies being acquired and one IPO for a total of 30 exits. Acquisition continues to account for the bulk of venture fund realizations in Canada as well as Ontario, which saw 12 total exits, 11 of which were strategic acquisitions. With both Google and Twitter, two of the more active corporate acquirers, recently opening offices in Toronto in addition to other major corporates, notably Facebook and Salesforce, already in Ontario, technology acquisitions in the Toronto-Waterloo corridor look to remain robust.

2012-2013 OPERATIONS AND RESULTS ACHIEVED

Ontario Venture Capital Fund

As of March 31, 2013, in accordance with the Ontario Venture Capital Fund (OVCF) portfolio guidelines, OVCF has made a total of twelve fund commitments or pending fund commitments to qualified venture capital funds.

Ten commitments to Ontario-based or Ontario focused funds totalled approximately $165 million and two commitments to other non-Ontario based/focused funds totalled $3.4 million. As of March 31, 2013, OVCF had also made six direct investments to Ontario-based companies. As of March 31, 2013, OVCF's closed commitments have partnered with third party capital to provide approximately $780 million for Ontario-based/focused funds and companies.

During OCGC's fiscal year, OVCF closed on its commitments to Celtic House Venture Partners Fund IV, Rho Canada Ventures II and Golden Venture Partners Fund, as well as one direct investment in Shopify Inc. OVCF also approved two pending commitments to Ontario-based funds currently fund raising. Consistent with the terms of the OVCF Limited Partnership Agreement, 55 funds were reviewed by OVCF during the past calendar year[3].

OVCF fund investments as of March 31, 2013 include:

Celtic House VENTURE PARTNERS

EXTREME VENTURE PARTNERS

GEORGIAN PARTNERS

golden VENTURE PARTNERS

lumiracapital

relayventures

rho CANADA VENTURES

XPV making a difference in water

[3] As part of OVCF's diligence process, select funds may be reviewed multiple times during a given 12-month period.

OVCF direct investments as of March 31, 2013 include:

Achievers

BLUECAT NETWORKS

dealfind™ everybody wins

polar MOBILE

shopify

SPECTRA

New Ontario Venture Capital Fund

On January 14, 2013, the Federal Government announced the $400 million Venture Capital Action Plan with four components:

1. Funding to continue developing a robust venture capital system and a strong entrepreneurial culture in Canada;
2. $250 million to establish new, large private sector-led national funds of funds in partnership with institutional and corporate strategic investors, as well as interested provinces;
3. Up to $100 million to recapitalize existing large private sector-led funds of funds, in partnership with willing provinces; and
4. An aggregate investment of up to $50 million in three to five existing high-performing venture capital funds in Canada.

On February 19, 2013, in the Ontario Throne Speech, Ontario committed up to $50 million to a new Ontario venture capital fund. OCGC has been given the mandate to work with the Federal Government and private sector to establish the fund.

Ontario and the Federal Government would each invest up to $50 million to leverage private sector investment to create an up to $300 million fund of funds. Similar to the existing OVCF, a private sector general partner will be selected by the limited partners to manage the fund.

Ontario Emerging Technologies Fund

In the first quarter of 2012-2013, OCGC was directed to pause making any new investments under the Ontario Emerging Technologies Fund (OETF). OCGC continues to manage its existing portfolio companies and make follow-on investments as required and appropriate.

In fiscal year 2012-2013 OCGC, through OETF, approved 13 follow-on co-investments into portfolio companies, representing a total investment commitment from OCGC of approximately $13.3 million. During the same fiscal year OCGC advanced approximately $14.8 million towards both initial and follow-on investments.

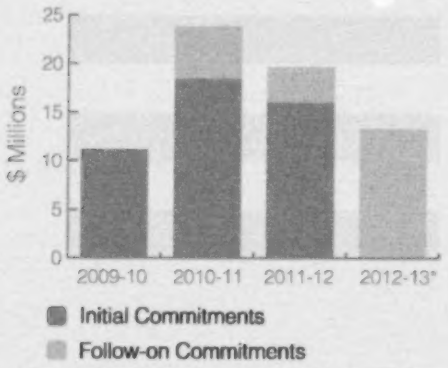
Through the OETF, since its inception, OCGC has invested in the below companies:

Affinium
Avasi
B5 Media
beringmedia
Covarity
ecobee
Energate
evandtec
FileTrek
HY-POWER
IGLOO
iStopOver
legitmix
NATRIX
NeurAxon
PERASO
shoplogix
Sidense
The Future of Logic NVM™
smart energy instruments
Sticker You
TELOIP
Verolc
VIVA
Woodland Biofuels Inc.
Xagenic

Since inception to March 31, 2013, OCGC has conditionally approved 50 co-investment opportunities (initial and follow-on) for a total capital commitment of approximately $68 million, expected to lever over 2 dollars in additional capital for every dollar invested.

Approximately 67% of OETF's dollar commitments have been towards initial investments with 33% in follow-ons.

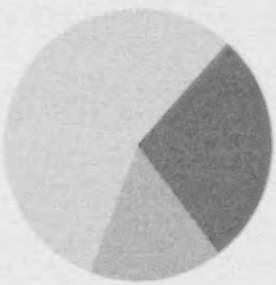
OETF Commitments by Fiscal Year



*In the first quarter of fiscal 2012-2013 a pause was placed on new initial investments.

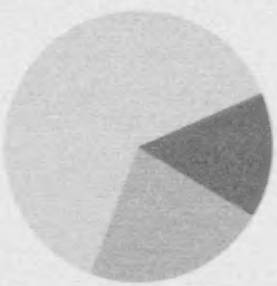
Similar to the overall Ontario venture capital market, a large portion of OETF commitments both in number of companies and dollar value, have been committed to companies in the digital media and information and communication technologies sector.

OETF Committed Co-Investments by Sector
(% of Total $ Committed)



- **56%** Digital Media/ICT
- **28%** Life Sciences
- **16%** Cleantech

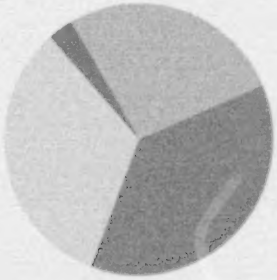
OETF Committed Co-Investments by Sector
(% of Total Number of Companies)



- **63%** Digital Media/ICT
- **15%** Life Sciences
- **22%** Cleantech

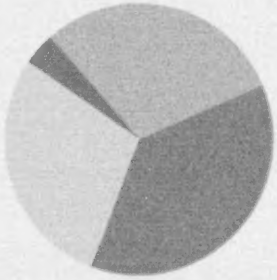
In terms of stage, the majority of OETF co-investments have been committed to early-stage companies.

OETF Committed Co-Investments by Stage
(% of Total $ Committed)



- **33%** Start-Up
- **3%** Seed Stage
- **27%** Other Early Stage
- **37%** Expansion

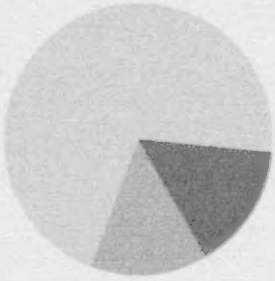
OETF Committed Co-Investments by Stage
(% of Total Number of Companies)



- **29%** Start-Up
- **4%** Seed Stage
- **30%** Other Early Stage
- **37%** Expansion

Similar to the overall Ontario venture capital industry the majority of OETF commitments have been made to companies based in the Greater Toronto Area.

OETF Committed Co-Investments by Location
(% of Total $ Committed)



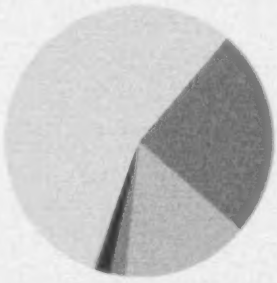
- **71%** Greater Toronto Area
- **15%** Kitchener-Waterloo
- **14%** Ottawa

Through OETF, OCGC has attracted a diverse group of investors from various locations to co-invest alongside OCGC into Ontario companies. Of note is the approximately 44% of dollars leveraged as of March 31, 2013 that have come from outside of Ontario.

OETF Leverage by Investor Type
(% of Total Flowed $ Leveraged)

- **50%** Private Independent
- **13%** Retail
- **6%** Corporate
- **5%** Angel Syndicate
- **5%** Other
- **5%** Government
- **16%** Foreign

OETF Leverage by Investor Location
(% of Total Flowed $ Leveraged)



- **55.7%** Domestic - Ontario
- **24.9%** Domestic - Rest of Canada
- **15.5%** Foreign - United States
- **1.7%** Foreign - Europe
- **1.7%** Foreign - Asia/Pacific
- **0.5%** Foreign - Middle East

During the 2012-2013 fiscal year, as noted in the audited financial statements and notes, OCGC recognized impairments on venture capital investments. As is expected in any venture capital fund when investing in early stage technology companies, OCGC will experience both losses and gains. Typically such losses occur early in the investment period.

Ontario Venture Capital Ecosystem Activities

One of the objectives of the Ontario Emerging Technologies Fund (OETF) is to increase the amount of capital available to emerging Ontario-based companies from a wide range of capital sources, both domestic and international. OCGC participated in several events this past fiscal year to increase the profile of its companies to support Ontario emerging technology companies in gaining access to the broader investment community. OCGC proactively engaged with investors at targeted investor events such as the Canadian Venture Capital Association (CVCA) Annual Conference, C100 Events, Canadian Innovation Exchange 2012, BioFinance 2012, Hyperdrive Demo Day, Extreme Startups Demo Day, National Angel Capital Organization (NACO) events, Ontario Centres of Excellence events, and Ontario Network of Entrepreneurs events.

Marketing OETF and OETF portfolio companies to US funds, other Canadian investors and corporate investors has enabled OCGC to attract 44% of its levered capital from outside of Ontario. Through these outreach activities, OCCG has also attracted a number of investors who are interested in the Ontario venture capital market. These include a broad range of investors such as multinational companies with venture capital arms, larger, foreign-based venture capital and/or private equity investors or pension funds with an interest in Ontario technology companies.

FINANCIAL STATEMENTS

June 17, 2013

Management's Responsibility for Financial Reporting

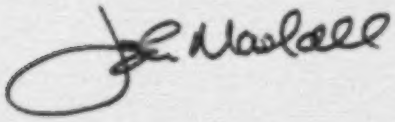
The accompanying financial statements of the Ontario Capital Growth Corporation (OCGC) have been prepared in accordance with Canadian public sector accounting standards and are the responsibility of Management. The preparation of financial statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 17, 2013.

Management maintains a system of internal controls designed to provide a reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provide for appropriate delegation of authority and segregation of responsibilities. The Ontario Internal Audit Division of the Ministry of Finance has the ability to independently evaluate the effectiveness of these internal controls on an ongoing basis and, as applicable, report its findings to Management and the Audit and Risk Committee of the Board of Directors.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Audit and Risk Committee assists the Board of Directors in carrying out these responsibilities. It meets periodically with Management, internal auditors and the external auditor, as applicable, to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by an independent auditor, PricewaterhouseCoopers LLP. The auditor's responsibility is to express an opinion on whether OCGC's financial statements fairly represent OCGC's financial position in accordance with Canadian public sector accounting standards. The auditor's report, which appears on the following page, outlines the scope of the auditor's examination and its opinion.

On behalf of Management:



John Marshall
President and Chief Executive Officer

June 17, 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Ontario Capital Growth Corporation

We have audited the accompanying financial statements of Ontario Capital Growth Corporation, which comprise the statements of financial position as at March 31, 2013 and 2012 and the statements of operations and changes in accumulated operating surplus, remeasurement gains and losses, changes in net assets and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Capital Growth Corporation as at March 31, 2013 and 2012 and the results of its operations, its remeasurement gains and losses, changes in its net assets and its cash flows for the years then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

ONTARIO CAPITAL GROWTH CORPORATION

Statements of Financial Position

As at March 31, 2013 and 2012

	2013 $	2012 $
ASSETS		
Cash and cash equivalents	**3,560,956**	2,255,982
Marketable securities (note 5)	**38,390,258**	58,582,152
Accounts receivable (note 4)	**15,254**	3,515,811
Ontario Venture Capital Fund LP – OVCF (note 6)	**56,474,673**	35,790,326
Ontario Emerging Technologies Fund – OETF (notes 7 and 9)	**55,878,817**	42,734,401
	154,319,958	142,878,672
LIABILITIES		
Accounts payable (note 12)	**201,375**	800,000
NET ASSETS	**154,118,584**	142,078,672
Accumulated surplus	**154,118,584**	142,078,672
Accumulated surplus comprises		
Accumulated operating surplus	**153,947,441**	142,001,135
Accumulated remeasurement gains	**171,143**	77,537
	154,118,584	142,078,672

Approved by the Board of Directors

Director

Director

The accompanying notes are an integral part of these financial statements.

ONTARIO CAPITAL GROWTH CORPORATION

Statements of Operations and Changes in Accumulated Operating Surplus

For the years ended March 31, 2013 and 2012

	2013 $	2012 $
REVENUES		
Funding and transfer payments from the Province of Ontario – OETF (note 7)	**14,500,000**	27,435,630
Interest income	**550,992**	770,312
Investment income on OETF portfolio investments (note 10)	**1,129,962**	–
Investment income on distribution from OVCF	**5,421**	–
Realized capital gain on distribution from OVCF	**13,156**	–
	16,199,531	28,205,942
EXPENDITURES		
Reimbursements to MRI (note 12)	**943,626**	1,083,129
Cash management fees (note 8)	**26,315**	36,916
Professional services fees (note 8)	**598,396**	674,136
Board and committee member fees	**24,788**	51,900
Loss on sale of OETF portfolio investments	**–**	1,941,576
Impairment of OETF portfolio investments (note 11)	**2,670,000**	5,643,117
Foreign currency exchange gain	**(9,900)**	(11,254)
	4,253,225	9,419,520
OPERATING SURPLUS	**11,946,306**	18,786,422
ACCUMULATED OPERATING SURPLUS – BEGINNING OF YEAR	**142,001,135**	123,214,713
ACCUMULATED OPERATING SURPLUS – END OF YEAR	**153,947,441**	142,001,135

The accompanying notes are an integral part of these financial statements.

ONTARIO CAPITAL GROWTH CORPORATION

Statements of Remeasurement Gains and Losses

For the years ended March 31, 2013 and 2012

	2013 $	2012 $
ACCUMULATED REMEASUREMENT GAINS (LOSSES) – BEGINNING OF YEAR	**77,537**	(14,879)
Unrealized gains attributable to		
Foreign exchange	**93,606**	77,537
Portfolio investments	**–**	14,879
	93,606	92,416
ACCUMULATED REMEASUREMENT GAINS – END OF YEAR	**171,143**	77,537

Statements of Changes in Net Assets

For the years ended March 31, 2013 and 2012

	2013 $	2012 $
NET ASSETS – BEGINNING OF YEAR	**142,078,672**	123,199,834
Operating surplus	**11,946,306**	18,786,422
Net remeasurement gains	**93,606**	92,416
Increase in net assets	**12,039,912**	18,878,838
NET ASSETS – END OF YEAR	**154,118,584**	142,078,672

The accompanying notes are an integral part of these financial statements.

ONTARIO CAPITAL GROWTH CORPORATION

Statements of Cash Flows

For the years ended March 31, 2013 and 2012

	2013 $	2012 $
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Increase in net assets	**12,039,912**	18,878,838
Unrealized gains attributable to portfolio investments	**–**	(14,879)
Impairment of OETF portfolio investments	**2,670,000**	5,643,117
Investment income on OETF portfolio investments	**(1,129,962)**	–
Loss on sale of OETF portfolio investments	**–**	1,941,576
Changes in non-cash operating balances		
Decrease (increase) in accounts receivable	**3,500,557**	(2,776,343)
(Decrease) increase in accounts payable	**(598,625)**	214,284
	16,481,882	23,886,593
INVESTING ACTIVITIES		
Purchase of marketable securities	**(98,250,298)**	(206,879,054)
Sale of marketable securities	**118,442,192**	225,548,515
Purchase of investments in OVCF	**(20,684,347)**	(19,348,289)
Purchase of investments in OETF	**(14,904,554)**	(23,020,388)
Sale of investments in OETF	**220,100**	150,000
	(15,176,907)	(23,549,216)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**1,304,974**	337,377
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	**2,255,982**	1,918,605
CASH AND CASH EQUIVALENTS – END OF YEAR	**3,560,956**	2,255,982

The accompanying notes are an integral part of these financial statements.

ONTARIO CAPITAL GROWTH CORPORATION

Notes to Financial Statements

March 31, 2013 and 2012

1. DESCRIPTION OF BUSINESS

Ontario Capital Growth Corporation (OCGC or the Corporation) is a corporation without share capital, established under the Ontario Capital Growth Corporation Act, 2008 (the Act), which was proclaimed in force as of February 1, 2009 as an agency of the Ministry of Research and Innovation (MRI). As of March 31, 2013, OCGC is responsible to the Minister of Research and Innovation.

The legislative authority of the Corporation is set out in the Act. Under Section 4 of the Act, the objectives of the Corporation are:

a) to receive, hold, administer and otherwise deal with the interest of the Government of Ontario in the limited partnership known as the Ontario Venture Capital Fund LP (OVCF);

b) to receive, hold and deal with property, whether real or personal, in connection with the objectives described in Section 4(a); and

c) to carry out the other objectives that are prescribed by Ontario Regulation 278/09 (the Regulations).

Under Section 1 of the Regulations, made under the Act, the following are prescribed as additional objectives of the Corporation:

a) to acquire, manage and otherwise deal with a portfolio of investments in businesses that the Corporation considers constitute emerging technologies businesses, which portfolio is known in English as the Ontario Emerging Technologies Fund (OETF) and in French as Fonds ontarien de développement des technologies émergentes; and

b) to receive, hold, invest, sell or otherwise deal with property, whether real or personal, in connection with the objectives described in clause 1(a).

On February 19, 2013, in the Ontario Throne Speech, Ontario committed up to $50 million to a new Ontario venture capital fund. OCGC has been given the mandate to work with the federal government and private sector to establish the fund. Ontario and the federal government would each invest up to $50 million to leverage private sector investment to create an up to $300 million "fund of funds". Similar to the existing OVCF, a private sector general partner will be selected by the limited partners to manage the fund.

As required by the Agency Establishment and Accountability Directive, the Corporation and MRI have entered into a memorandum of understanding, which outlines the operational, administrative, financial and other relationships that exist between OCGC and MRI.

OCGC is classified as an Operational Enterprise Agency. OCGC is responsible for fulfilling the Province of Ontario's contractual obligations as a limited partner in the OVCF. OCGC is also responsible to establish, hold, manage and administer the OETF.

OVCF is a joint initiative between the Province of Ontario and leading institutional investors. It is structured as a fund-of-funds that invests primarily in Ontario-based and Ontario-focused venture capital and growth funds, which, in turn, makes investments in innovative, high-growth companies. OVCF was established to provide investment funding to venture capital and growth equity managers capable of generating superior returns by investing in enterprises with a view to creating large, globally competitive companies.

OETF is structured as a direct co-investment fund that will only make investments in innovative high-potential companies alongside other qualified investor(s) with a proven track record of success. OETF is an initiative of the Government of Ontario to invest in innovative high-potential companies with an Ontario footprint in three strategic sectors: (a) clean technology; (b) digital media and information and communications technologies; and (c) life sciences and advanced health technologies.

OCGC claims exemption from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act (Canada). OCGC also claims exemption from the federal goods and services tax imposed by the Excise Tax Act (Canada). In November 2009, the Canada Revenue Agency confirmed exemption from the goods and services tax effective February 1, 2009.

As part of the change to the harmonized sales tax (HST) and in accordance with the HST agreement between the Governments of Ontario and Canada, provincial government entities (ministries and agencies) no longer have an exemption from paying the GST/HST. As of July 1, 2010, a pay and rebate model applies. This means that OCGC now pays the 13% HST on taxable supplies, and then applies for a rebate of the full 13% amount.

OCGC operates in the same fiscal year ending March 31 as the Government of Ontario.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation's functional and presentation currency is the Canadian dollar. All financial statement disclosures have been prepared in accordance with Canadian public sector accounting standards (PSAS) established by the Canadian Public Sector Accounting Board. The more significant accounting policies of the Corporation are summarized below.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include demand deposits that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

MARKETABLE SECURITIES

Marketable securities quoted in an active market are measured at fair value as at the dates of the statements of financial position with any unrealized gain or loss recognized on the statements of remeasurement gains and losses. Remeasurement gains and losses related to a particular investment are reclassified to the statements of operations and changes in operating surplus when that investment is settled. Fair value includes the value of accrued interest, as applicable.

Portfolio investments that are not traded in an active market are measured at cost. Impairment losses, which are other than temporary, are recognized in the statements of operations and changes in accumulated operating surplus when they occur.

ONTARIO VENTURE CAPITAL FUND LP

The investment in OVCF is classified as a financial instrument and carried at cost based on the capital calls made by the general partner of OVCF. The investment in OVCF is not traded in an active market; therefore, fair value of the investment is not readily determinable. OVCF investments are subsequently tested for impairment on each statement of financial position date and any losses due to impairment are recognized in the statements of operations and changes in accumulated operating surplus on that date.

ONTARIO EMERGING TECHNOLOGIES FUND

Investments in OETF are classified as financial instruments and carried at cost or measured at fair value based on whether or not there exists of an active market for the securities. OETF investments quoted in an active market are measured at fair value as at the statements of financial position dates with any unrealized gain or loss recognized on the statements of remeasurement gains and losses. Remeasurement gains and losses are reclassified to the statements of operations and changes in accumulated operating surplus when an investment becomes impaired or is derecognized. Impairment losses that are other than temporary are recorded to the statements of operations and changes in accumulated operating surplus when recognized. Fair value includes the value of accrued interest or dividends payable, as applicable.

When an OETF investment is not traded in an active market, it is measured at cost. OETF investments are tested for impairment on each statement of financial position date and any impairment losses are recognized in the statements of operations and changes in accumulated operating surplus on those dates.

Accrued interest and dividends on OETF investments are recorded as described below under revenue recognition. If the Corporation has evidence that the amounts owing will be collected, these amounts are accrued as receivable; otherwise, a reserve is taken against these amounts. If, in a future year, the Corporation receives an amount that had been written off, it is recorded as a recovery of interest that had been previously deemed uncollectible. Amounts written off or recovered are recognized in the statements of operations and changes in accumulated operating surplus in the year in which they occur.

REVENUE RECOGNITION

Interest income is recognized as it is earned. For marketable securities and OETF investments, interest income is accrued using the effective interest rate method.

Dividend income is recognized in the year that the Corporation becomes entitled to receive the dividend as per the terms and conditions of the share issuance.

Revenue on distributions from OVCF are recognized in the year that the Corporation becomes entitled to receive the distribution as per the terms and conditions of OVCF limited partnership agreement.

OETF funding received represents monies transferred from MRI to the Corporation, as described note 7.

EXPENSE CATEGORIES

Cash management fees primarily represent fees paid to the Ontario Financing Authority (OFA) for cash management and related services.

Professional fees relate to fees paid to third party service providers.

Board and committee member expenses represent monies paid to board and committee members according to the Board and Committee Members Remuneration Policy, which conforms with the Government Appointees Directive of Management Board of Cabinet (May 1, 2011).

Reimbursements to MRI represent direct OCGC expenses paid by MRI on its behalf for administrative purposes only.

FOREIGN CURRENCY TRANSLATION

Foreign currency gains and losses on monetary items are recognized immediately in the statements of operations and changes in accumulated operating surplus. Unrealized foreign currency gains and losses on portfolio investments, OVCF investments, and OETF investments are recognized in the statements of remeasurement gains and losses. Unrealized foreign currency exchange gains and losses are reclassified from the statements of remeasurement gains and losses to the statements of operations and changes in accumulated operating surplus when the financial instrument is derecognized.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates are based on the best information available at the time of preparation of the financial statements and are periodically reviewed to reflect new information as it becomes available. Actual results could differ from these estimates.

3. FINANCIAL INSTRUMENTS

CREDIT RISK

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation is currently exposed to credit risk through its holdings of convertible debt instruments in OETF. The Corporation considers obligations of the Governments of Ontario and Canada to be relatively risk-free (note 5).

FAIR VALUE

The Corporation's carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the immediate or short-term nature of these financial instruments.

The fair value of the investment in OVCF is not readily determinable and has been recorded at cost. OVCF does not have a quoted market price in an active market.

The co-investments made in OETF are recorded at cost, which represent fair value at the time of acquisition. Investments that are quoted in an active market are measured at fair value at the statements of financial position dates. Any unrealized gain or loss at this date is recognized in the statements of remeasurement gains and losses until the investment is derecognized or other than temporarily impaired. All other OETF investments are measured at cost or amortized cost. As part of the reporting process to the Province of Ontario, the Corporation is required to carry out periodic valuations of OETF portfolio investments to determine whether there has been an other than temporary loss in value that would indicate impairment. If the investments are determined to be impaired, they are written down to the new carrying value and the resultant impairment expense is recognized immediately in the statements of operations and changes in accumulated operating surplus. Furthermore, to the extent that a security held in OETF represents a compound financial instrument with an embedded derivative, such as an equity conversion option, the value of that derivative at acquisition should be measured at fair value unless that derivative is linked to and must be settled by delivery of unquoted equity instruments, in which case, would require the derivative to be measured at cost. For derivatives classified to the fair value category, value is first determined by referencing a quoted price in an active market, or, in absence of this, applying a suitable valuation technique.

CURRENCY RISK

Currency risk is the risk to the Corporation's results of operations that arises from fluctuations of foreign currency exchange rates and the degree of volatility of these rates. The Corporation's exposure to foreign currency exchange risk is limited to holding US dollar cash and cash equivalents and holding OETF investments denominated in US dollars. OCGC does not hedge its US dollar exposure. The Corporation had a net exposure of $5,669,025 to the US dollar as at March 31, 2013 (2012 - $5,889,580). A 5% increase (5% decrease) of the Canadian dollar against the US dollar as at March 31, 2013

would result in an impact of $283,451 on the statements of remeasurement gains and losses (2012 - $294,479) with no impact on the operating surplus. In practice, the actual trading results may differ from this sensitivity analysis and the impact could be material.

INTEREST RATE RISK

Interest rate risk is the risk the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Corporation manages exposure through its normal operating and financing activities. The Corporation is exposed to interest rate risk primarily through its short-term marketable securities and OETF portfolio. Risks from interest rate fluctuations for marketable securities are minimal due to the investments being held for a term of three years or less to match the OVCF drawdowns projected by the OVCF fund manager. The impact of interest rate fluctuations on OETF investments are considered minimal as these instruments are primarily held for purposes of capital appreciation.

OTHER PRICE RISK

Other price risk is the risk the value of financial instruments will fluctuate as a result of changes in market prices or from factors specific to an individual investment. The maximum risk resulting from the financial instruments is equivalent to their fair value. The marketable securities consist of treasury bills that are not subject to significant price risk. As at March 31, 2013, if the value of the investments in OVCF and OETF had increased or decreased by 5%, all other variables held constant, the value of the investments would have changed by $5,617,675 (2012 - $3,926,236). Investments made through OVCF or in OETF are highly illiquid, do not have a readily determinable market price, and are generally in early stage companies where the ultimate value that may be realized by OCGC on eventual disposition is inherently unpredictable.

Returns on these investments will depend on factors specific to each company (such as financial performance, product viability and quality of management), and external forces (such as the economic environment and technological progress by competitors). The carrying value of the OETF portfolio is measured at cost less changes for any other than temporary impairment in value at the statements of financial position dates; however, the amounts that may ultimately be realized could be materially different.

4. ACCOUNTS RECEIVABLE

For each fiscal year ending March 31, disbursements under OETF transfer payment agreement to the Corporation may be overdue from the Province of Ontario due to year-end payment processing delays. For the years ended March 31, 2013 and 2012, overdue payments of $nil and $3,500,000 were received in full subsequent to the year-ends, respectively.

As a Schedule A provincial agency, OCGC is required to follow the pay and rebate model with respect to HST applied to direct purchases. The Corporation pays the HST on its purchases and, subsequently, files a monthly rebate claim with the Canada Revenue Agency for the HST paid. HST rebates receivable as at March 31, 2013 amounted to $15,254 (2012 - $15,811).

5. MARKETABLE SECURITIES

OCGC may temporarily invest any monies not immediately required to carry out its objectives in:

a) debt obligations of or guaranteed by the Government of Canada or a province of Canada; or

b) interest bearing accounts and short-term certificates of deposit issued or guaranteed by a chartered bank, trust company, credit union or caisse populaire.

The value of portfolio investments as at March 31 is as follows:

	2013		2012	
	Par value	**Fair value**	Par value	Fair value
	$	**$**	$	$
Province of Ontario treasury bill, due on June 12, 2013, average coupon rate of 0.000%	**38,495,000**	**38,390,258**	58,814,000	58,582,152

Fair value includes any accrued interest owing on the treasury bills.

The fair value of the marketable securities may fluctuate depending on changes in interest rates. For the year ended March 31, 2013, a change in interest rates of 1.00% would result in an impact of $0.080 million (2012 - $0.22 million) to the results of operations.

6. ONTARIO VENTURE CAPITAL FUND LP

The investment in OVCF is carried at cost, based on the capital calls made by the general partner of OVCF. OVCF is not traded in an active market and the fair value of the investment is not readily determinable.

7. PROVINCE OF ONTARIO – ONTARIO EMERGING TECHNOLOGIES FUND

The investment in OETF was launched in July 2009 with a commitment from the Province of Ontario to provide funding of $250 million. OETF, as a direct co-investment fund, will only make investments into innovative high-potential companies alongside other qualified investor(s) with a proven track record of success. Investments will be in: (a) clean technology; (b) digital media and information and communication technologies; and (c) life sciences and advanced health technologies.

On May 30, 2012, the Corporation implemented a pause on any new investments under OETF for an indefinite period of time. This decision did not affect the Corporation's ability to continue to make follow-on investments into existing portfolio companies and did not affect investments-in-process that had already been approved by OCGC's Board of Directors but had not yet closed.

8. CONTRACTUAL COMMITMENTS

OCGC has the following contractual commitments:

a) In accordance with a financial service agreement between OFA and OCGC, OFA conducts investment and cash management services and activities for OCGC. OFA is the agency of the Province of Ontario responsible for providing financial and centralized cash management services for the government. OCGC pays OFA a fee for these services based on assets under management and reimburses for other related activities on a cost recovery basis.

b) Pursuant to the OVCF limited partnership agreement, OCGC is committed to making capital contributions on notice of capital calls. As at March 31, 2013, the total uncalled commitment is $33,515,843 to be drawn down over the remaining years of the limited partnership.

c) In accordance with the contract between Ernst & Young LLP (E&Y) and OCGC, E&Y conducts due diligence services and activities to qualify OETF co-investors. OCGC pays both a fixed rate and hourly rates for these services and activities, respectively.

d) In accordance with the contract between Covington Capital Inc. (Covington) and OCGC, Covington conducts services and activities to qualify, monitor, and exit OETF's investments. OCGC pays both a fixed rate and hourly rates for these services and activities, respectively.

e) In accordance with the contract between Weiler & Company (Weiler) and OCGC, Weiler performs accounting functions relating to the operations of OCGC, OVCF investments, and OETF investments. OCGC pays an hourly rate for these services.

9. INVESTMENTS IN OETF

The investment portfolio of OETF as at March 31, 2013 and 2012 is summarized as follows:

	2013			2012		
	Acquisition cost	**Carrying value**	**Contingent***	cost	Carrying value	Contingent
	$	**$**	**$**	$	$	$
Canadian investments	**52,902,089**	**50,662,051**	**2,856,949**	38,914,000	37,714,100	5,086,927
US investments	**9,084,044**	**5,216,766**	**78,901**	9,591,371	5,020,301	1,346,563
	61,986,133	**55,878,817**	**2,935,850**	48,505,371	42,734,401	6,433,490

* Represents follow-on investments committed to by the Corporation but not yet executed

Investments in OETF can take the form of shares or convertible debt. All investments have been made in accordance with OETF guidelines. As at March 31, 2013, the OETF portfolio consisted of investments in 23 different companies, ranging from 0.11% to 5.19% of net assets. The percentage calculations exclude impaired investments in companies with a nominal or $nil carrying value (if any).

10. INVESTMENT INCOME ON OETF PORTFOLIO INVESTMENTS

During the years ended March 31, 2013 and 2012, the Corporation recognized $1,129,962 and $nil, respectively, of accrued interest income on certain OETF portfolio investments on the exchange of existing debt instruments into new debt instruments with revised terms or conversion of existing debt instruments into equity shares. The accrued interest realized was reinvested into the new securities of the respective OETF portfolio companies as part of the exchange or conversion and is reflected in the cost basis of these securities.

11. IMPAIRMENT OF OETF PORTFOLIO INVESTMENTS

For the years ended March 31, 2013 and 2012, impairment charges of $2,670,000 and $5,643,117, respectively, in OETF portfolio investments were identified by management and were recognized in the statements of operations and changes in accumulated operating surplus.

12. ACCOUNTS PAYABLE

The Corporation and MRI carry out their respective operations on a shared-cost basis. The Corporation reimburses MRI for certain expenses incurred on its behalf. These expenses may include but are not limited to staff salaries, benefits, information technology and rent allocations per staff member, external legal services, website development, French language translation, and other services.

Recognition and measurement of any reimbursement is subject to annual reconciliation between the Corporation and MRI, and approval of the extent and scope of MRI services to be provided. For each fiscal year ending March 31, the Corporation will seek certification from the MRI that any further potential financial liability with respect to eligible expenses incurred on behalf of the Corporation is fully satisfied without further recourse. Any financial liability to MRI with respect to reimbursements of eligible expenses incurred prior to March 31, 2013 has been extinguished.

The Corporation accrues eligible expenses reimbursable to MRI under accounts payable based on estimates provided by MRI that can be independently verified by the Corporation. Reimbursement payable in arrears as at March 31, 2013 amounted to $65,587 (2012 - $645,921).

The remaining balance as at March 31, 2013 in the amount of $135,788 represents payables in arrears to miscellaneous service providers (2012 - $146,827).

13. PROVINCE OF ONTARIO – A NEW ONTARIO VENTURE CAPITAL FUND

Effective March 27, 2013, MRI entered into the Ontario VC Fund Transfer Payment Agreement (the TPA) with OCGC to invest into a new Ontario venture capital fund. The new fund has a targeted $300 million close with capital commitments from the Government of Ontario, Government of Canada and the private sector.

Ontario has committed to provide funding up to $50 million to OCGC to launch the new fund pursuant to the terms of the TPA.

CORPORATE GOVERNANCE

OVERVIEW

OCGC is an agent of the Crown and is classified as an operational enterprise agency of the Ministry of Research and Innovation.

OCGC's governance framework is based on Management Board of Cabinet's (MBC) *Agency Establishment and Accountability Directive*[6] and is set out in its corporate governance policy.

Corporate governance at OCGC is based on processes that permit the effective supervision and management of activities by senior management, the Audit and Risk Committee, the Human Resources Committee, the Board of Directors and the Minister of Research and Innovation.

ACCOUNTABILITY

OCGC's accountability structure flows from its governing statute, the *Ontario Capital Growth Corporation Act, 2008* and from the Memorandum of Understanding between OCGC and the Minister of Research and Innovation, as well as OCGC's By-Laws and applicable directives issued by MBC relating to Crown agencies. Together, these documents provide that the Minister of Research and Innovation reports and responds to the Legislative Assembly and Cabinet regarding OCGC.

The Chair of the Board of Directors is accountable to the Minister for the Corporation's performance in fulfilling its mandate. The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Research and Innovation and is accountable to the Minister, through the Chair, for supervising the management of the Corporation's business.

The President and Chief Executive Officer is accountable to the Chair of the Board for the day-to-day management of OCGC's operations and the management and supervision of staff. Staff are appointed pursuant to the *Public Service of Ontario Act, 2006* and are subject to MBC policies and directives applicable to public servants. Employees are accountable to the President and Chief Executive Officer.

ROLES AND RESPONSIBILITIES

The Minister of Research and Innovation maintains communications with OCGC through the Chair regarding government policies, expectations and new directions relevant to OCGC. The Minister is responsible for reviewing and approving OCGC's annual business plan. The Minister is also responsible for receiving and making the OCGC annual report available to the public through tabling it in the Legislative Assembly.

The Chair provides leadership and direction to the President and Chief Executive Officer and the Board and ensures that OCGC complies with government policies and directives. The President and Chief Executive Officer is responsible for the ongoing activities of the Corporation and ensures that policies and procedures, including financial reporting, remain relevant and effective.

In 2012-2013 the Board of Directors was comprised of three private sector members and two public servants. The Board meets once a month and receives regular reports from the President and Chief Executive Officer concerning the Corporation's operations and its compliance with applicable laws and policies.

[6] As may be amended from time to time

The Board's Audit and Risk Committee approves an annual audit plan in regard to OCGC's independent external audit and liaises as necessary with the Corporation's internal and external auditors and the Auditor General of Ontario regarding financial reporting and controls. It also reviews financial policies and financial statements and recommends them to the Board.

FINANCIAL REPORTING

OCGC prepares both unaudited quarterly and audited annual financial statements in accordance with Public Sector Accounting Board (PSAB) standards. These statements are reviewed and recommended by the Audit and Risk Committee and submitted to the Board of Directors for approval. The 2012-2013 audited financial statements were audited by PricewaterhouseCoopers LLP (PwC). Consistent with the aforementioned process, the Board approved the audited financial statements and received the Auditor's report thereon on the recommendation of the Audit and Risk Committee. The 2012-2013 audited financial statements are incorporated in Volume 2 reporting of the Public Accounts of Ontario.

INTERNAL CONTROLS

Management is responsible for establishing and maintaining adequate internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements to safeguard its assets and control its liabilities.

In keeping with good governance, OCGC will continue to evolve its internal controls to ensure they reflect leading industry practices. In meeting its responsibility for the reliability and timeliness of financial information, OCGC uses a comprehensive system of internal controls, including organizational and procedural controls.

OPERATIONS

In support of its mandate, in keeping with the original OCGC model, OCGC remains a small agency with staff involved in operations, governance, financial controls and investments, and a limited number of external expert service providers/agreements with external firms having specialized investment knowledge in fund evaluation, direct co-investment and fund-of-fund investments, as well as audit and bookkeeping.

RISK MANAGEMENT POLICIES AND PROCEDURES

As part of its annual business plan, OCGC conducts an assessment of corporate-wide risks and develops appropriate mitigation strategies. OCGC's risk management plan is based on the requirements contained in the *Agency Establishment and Accountability Directive*.[7] It considers the management of both internal and external risk exposures. The framework for OCGC's risk management plan is based on: strategic, policy and performance risk; accountability and compliance risk; operational risk; workforce compensation risk; information technology & infrastructure risk; and, other applicable risks.

The Board is also informed of real or potential exposure to risk through regular updates by the President and Chief Executive Officer.

OUTLOOK FOR 2013-2014

Based on OCGC's strategy and mandate, a number of priorities have been identified for the 2013-2014 fiscal year:

- Collaborate with the federal government and private sector investors to establish a new Ontario venture capital fund with up to $50 million from Ontario
- Continue to manage the Province of Ontario's limited partner interest in the OVCF
- Manage OCGC's portfolio investments in early-stage Ontario companies through OETF
- Continue OCGC's outreach activities to showcase OETF portfolio companies to international investors
- Look for new opportunities to support OETF portfolio companies and the broader Ontario venture capital industry
- Continue to support and develop the Ontario venture capital ecosystem
- Increase reporting on the impact and successes created by OETF and OVCF
- Continue to improve administrative and operating systems

[7] As may be amended from time to time

Ontario

Ontario Capital Growth Corporation

♻ Printed in Ontario, Canada on recycled paper

© Queen's Printer of Ontario, 2013 08/13

ISSN 1920-3438
1923-5208 (Online)

CONTACT INFORMATION

For general inquiries and information please contact OCGC at:

Ontario Capital Growth Corporation
375 University Avenue, Suite 700
Toronto, Ontario, Canada M5G 2J5

Direct: 416-325-6874
Toll-free: 1-877-422-5818
Fax: 416-212-0794
Email: ocgc@ontario.ca
Web: www.ontario.ca/ocgc